

Federal Tax Implications for Employees Receiving Commute Subsidies

Employers may provide transit and vanpool benefits in addition to current compensation paid to their workers or in lieu of their existing compensation. The limit on nontaxable transit and vanpool benefits is \$100 per employee per month and the limit on parking is \$195 per employee per month for year 2004. Thereafter these benefits will be indexed for inflation. Transit and vanpool qualified transportation fringe benefits can be applied in the following ways.

Benefits in Addition to Compensation	Benefits in Lieu of Compensation	Combination
<ul style="list-style-type: none">• Employers may give their employees up to \$100 per month in benefits to commute to work by transit or eligible vanpools.• The employer pays for the benefit and receives an equivalent deduction from his business taxes.• Employees receive the benefit completely free of all payroll and income taxes, in addition to their current compensation.	<ul style="list-style-type: none">• Employers may permit their employees to set aside some of their pre-tax income to pay for transit or eligible vanpools.• Employers do not pay for the benefit but permit employees to set aside part of their gross income (in lieu of compensation) to pay for commuting expenses, before taxes are computed, up to \$100 per month.• Employees save on payroll and income taxes on the amount of the benefit they purchase, since that amount is no longer treated or reported as taxable salary.• Employer's payroll costs are reduced since payroll taxes do not apply to the set aside amount because it is treated as a benefit.	<ul style="list-style-type: none">• Employers may share the cost of commuting with their employees. Employers can give their employees part of the commuting expense tax-free in addition to their compensation plus allow the employees to set aside part of their gross income (in lieu of compensation) to pay the remaining amount, up to the monthly limit of \$100.• For example, if the employer provides a benefit amount of \$30 tax-free to the employee, the employer could provide the employee a transit pass worth \$72. The \$42 difference could be paid by pre-tax income set aside from employee wages for this purpose. The total monthly benefit of \$72 would not exceed the \$100 maximum allowed.• The employer receives a \$30 deduction from his business income taxes while the employee saves payroll and income taxes on the \$42 set aside amount. The employer also saves payroll taxes on the \$42 set aside.

Parking Cash Out

Employers may establish a parking cash out program whereby employees may choose to cash out the value of employer-provided parking, forego parking, and receive the taxable cash value of the parking, or receive a tax-free transit or eligible vanpool benefit up to \$100 per month. The employer transfers its expenditure for the parking space, assuming it is leased, to a direct payment to the employee. If the employee accepts the cash value rather than a tax-free transit or vanpool benefit, then the employee also incurs payroll and income taxes on the amount. The employer only incurs payroll taxes on the cash value provided. This additional compensation will allow the employee to finance other commuting modes that are not considered qualified transportation fringe benefits, such as walking, bicycling, carpooling, rollerblading, or other means of commuting to work.

Questions regarding interpretation or administration of tax codes should be directed to your company's tax attorney or accountant.